

Taiwan Tax Update

October 2023

Income Tax

Profit-seeking enterprises can claim double deduction for voluntary top-up salary expense paid to employees on leave due to being diagnosed with COVID-19

In accordance with the Special Act for Prevention of COVID-19 and Introduction of Economic Stimulus Package (“Special Act for Prevention of COVID-19”), 200% of voluntary top-up salary expense paid by employers to employees who take quarantine leave (due to being in close contact with those diagnosed with COVID-19) according to law or based on instructions from the Central Epidemic Command Center, may be deducted from current year taxable income. However, if an employee is diagnosed with COVID-19, such employee does not meet the requirement for taking quarantine leave, and may have taken sick leave, annual leave or personal leave instead, whereby the employer shall be obliged to bear half pay, full pay, or no pay depending on the type of leave taken. Whereas by law, for quarantine leave taken, employers are not obliged to pay employees. Accordingly, before the announcement of Tax Ruling No. 11200604860 on September 15, 2023, payment of voluntary top-up salary expense by employers to employees diagnosed with COVID-19 was not eligible for double deduction.

Considering quarantine treatment is requested by epidemic prevention policies, the Ministry of Finance clarified that employers can claim double deduction for voluntary top-up salary expense (exceeding the regulated amount, or amount agreed by employer and employee) paid to employees diagnosed with COVID-19 who take leave during this period. This is to allow consistent tax treatment on voluntary top-up salaries paid to employees who are diagnosed with COVID-19, and those who take quarantine leave due to being in close contact with those diagnosed with COVID-19. Please refer to the below table for determination of voluntary top-up salaries paid which are eligible for double deduction (assuming employer elects to give full-pay regardless of type of leave taken):

Type of leave taken	Salary due under Labor Standards Act	Employer elects to give full-pay (amount of salary eligible for double deduction)
Quarantine leave (employee not diagnosed with COVID-19)	Unpaid leave	Entire amount is eligible for double deduction.
Sick leave (employee diagnosed with COVID-19)	Half-pay leave	Amount exceeding half-pay is eligible for double deduction.
Personal leave (employee diagnosed with COVID-19)	Unpaid leave	Entire amount is eligible for double deduction.
Annual leave (employee diagnosed with COVID-19)	Full-pay leave	Not applicable, as full-pay is already given.

PwC Reminder:

Where employees diagnosed with COVID-19 take leave, and employers provide voluntary top-up salary payment in excess of regulated amount or amount agreed by employer and employee, as long as the corporate income tax return for the fiscal year incorporating said voluntary top-up salary expense has not yet been assessed at the time the tax ruling was announced, the employer can submit relevant supporting documents to the tax authority to claim double deduction of aforesaid voluntary top-up salary expense before December 31, 2023.

From March 20, 2023 onwards, individuals who are diagnosed with COVID-19 and having mild symptoms can be exempt from compulsory quarantine, and only need to follow “0+n day policy for self-health management”, whereby voluntary top-up salary paid to employees diagnosed with COVID-19 is no longer eligible for double deduction. In addition, the Special Act for Prevention of COVID-19 was abolished on June 30, 2023, whereby voluntary top-up salary expense paid by employer is no longer eligible for double deduction from July 1, 2023 onwards.

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